

## Eco World Development (ECW MK)

# Balance sheet continues to improve

### Profit in line but sales above; maintain BUY

ECW's 3QFY22 core net profit of MYR45m (+28% YoY, +5% QoQ) was in line but its 10MFY22 locked-in property sales of MYR3.4b were above expectations. Elsewhere, net gearing continued to improve to 0.35x as at end-3QFY22, from 0.36x end-2QFY22. We adjust our earnings forecasts by -6% to +7%. Our TP is unchanged at MYR0.81 (on unchanged 0.5x FY23E PBV). ECW is backed by div yields of 6%. Reiterate BUY.

### Expect stronger 4QFY22 earnings delivery

Excluding MYR1.3m one-off (incl. reversal for impairment of right-of-use assets and allowance for impairment of receivables), ECW reported a 3QFY22 core net profit of MYR45.1m, lifting 9MFY22 core earnings to MYR149.4m (+6.8% YoY), accounting for 64%/66% of MIBG/consensus FY estimates; in line. 4QFY22 earnings should be seasonally stronger. Also, its 27%-associate, ECWI MK (SELL; CP: MYR0.30, TP: MYR0.31) is expected to report profit in 4QFY22 with the delivery of two UK projects.

### Very likely to exceed FY22 sales goal

ECW has locked-in MYR3.4b in property sales in 10MFY22, accounting for 98% of its FY22 sales target of MYR3.5b, exceeding expectations. Of the MYR3.4b sales, 55% were derived from the central region, followed by Johor (31%) and Penang (14%). As at end-Aug 2022, unbilled sales (Malaysia projects) were MYR3.95b or 1.2x of our FY23E revenue. ECW has declared a 2<sup>nd</sup> interim dividend of 1sen (YTD: 3sen); in line.

### Earnings adjustments

We adjust FY22/23/24 earnings forecasts by -5.6%/+4.4%/+6.6% to factor in: 1) a higher FY22 property sales assumption of MYR3.8b (+8%) and 2) new ECWI loss projections (see our [report](#) dated 15 Sep). We expect ECWI to report lower losses in FY23 and FY24 due to lower interest expenses. ECW is focusing on improving its profitability by leveraging on its matured townships and introducing products with higher margins. With a lower net gearing, it is looking to replenish its landbank in Klang Valley.

FYE Oct (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,997	2,043	3,020	3,420	3,685
EBITDA	182	266	385	433	428
Core net profit	265	231	220	276	301
Core EPS (sen)	9.0	7.8	7.5	9.4	10.2
Core EPS growth (%)	30.3	(12.8)	(5.0)	25.9	8.9
Net DPS (sen)	2.0	4.0	4.0	4.0	4.0
Core P/E (x)	4.2	13.0	8.9	7.0	6.5
P/BV (x)	0.2	0.6	0.4	0.4	0.4
Net dividend yield (%)	5.3	3.9	6.1	6.1	6.1
ROAE (%)	3.5	3.9	4.6	5.6	5.9
ROAA (%)	2.5	2.3	2.1	2.5	2.6
EV/EBITDA (x)	21.9	19.2	9.6	8.2	8.0
Net gearing (%) (incl perps)	61.6	44.0	36.4	31.8	28.5
Consensus net profit	-	-	218	227	250
MKE vs. Consensus (%)	-	-	0.9	21.9	20.6

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# BUY

Share Price	MYR 0.66
12m Price Target	MYR 0.81 (+23%)
Previous Price Target	MYR 0.81

### Company Description

*Eco World Development is principally involved in the property development business.*

### Statistics

52w high/low (MYR)	1.10/0.55
3m avg turnover (USDm)	0.4
Free float (%)	43.2
Issued shares (m)	2,944
Market capitalisation	MYR1.9B
	USD429M

### Major shareholders:

Syabas Tropikal Sdn. Bhd.	20.0%
LIEW KEE SIN	9.4%
Eco World Development Holdings Sdn. Bhd.	7.5%

### Price Performance



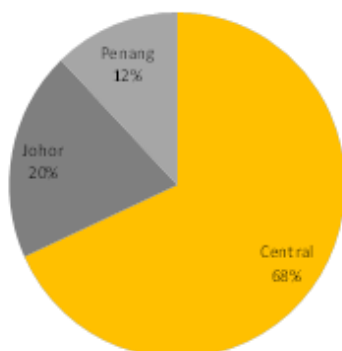
	-1M	-3M	-12M
Absolute (%)	(1)	(2)	(18)
Relative to index (%)	2	(2)	(13)

Source: FactSet

## Value Proposition

- Management is led by former SP Setia executives with experience in township and commercial to high-rise integrated mixed developments in Malaysia and overseas.
- 68% of the GDV is derived from its Klang Valley projects, followed by Iskandar Malaysia (20%) and Penang (12%).
- Margins are low since most of ECW's land was purchased during the peak of property cycle.

GDV (MYR62.5b as at Oct 2021) breakdown by location



Source: Company

## Price Drivers

### Historical share price trend



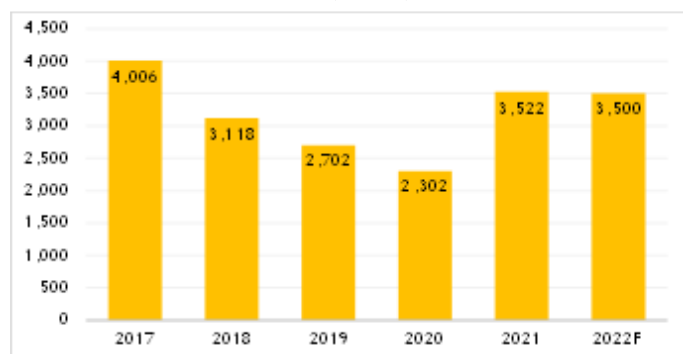
Source: Company, Maybank IBG Research

- 2018: Selldown on property stocks pre-GE14.
- Oct 2018: Failed to meet FY18 sales target.
- 2020: Khazanah, via UEM Group (UEMG, Not Listed), has proposed to merge ECW with UEMS (UEMS, CP MYR0.32, HOLD, TP MYR0.35 via a share swap at an issue price of MYR0.443/sh for UEMS in exchange for all ECW shares at an exchange price of MYR0.469/sh (source: Bursa Malaysia).
- Jan 21: ECW has decided not to pursue the proposed merger with UEMS (source: Bursa Malaysia).
- 2022: Interest rate hikes in May 2022 and July 2022.

## Financial Metrics

- ECW does not have a dividend payout policy.
- Net gearing improved to 0.35x as at end-3QFY22 (from 0.36x as at end-2QFY22). Expect gearing to improve gradually as its development projects mature.

### ECW's historical sales trend (MYRm)



Source: Company

## Swing Factors

### Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-ups for its ongoing and new projects.
- Better-than-expected operating margins on cost cutting measures.

### Downside

- A prolonged slowdown in the property sector.
- Its international projects (via its associate company) are subject to currency and country risks.

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Fig 1: ECW's results summary table

FY Oct (MYRm)	Quarterly					Cumulative		
	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Turnover	444.0	448.9	-1.1	506.9	-12.4	1,484.3	1,376.7	7.8
EBIT	71.9	48.7	47.5	92.6	-22.3	242.6	148.9	62.9
JV/Associate	12.5	17.1	-26.9	-2.2	>+100	35.7	106.2	-66.4
Finance costs	-25.1	-30.1	16.6	-26.2	4.2	-75.5	-89.1	15.2
<b>Pretax profit</b>	<b>59.3</b>	<b>35.7</b>	<b>66.0</b>	<b>64.2</b>	<b>-7.6</b>	<b>202.7</b>	<b>166.0</b>	<b>22.1</b>
Tax	-12.9	-0.6	>-100	-18.5	30.1	-47.3	-26.1	-81.1
MI	0.0	0.0	NA	0.0	NA	0.0	0.0	NA
<b>Net profit</b>	<b>46.4</b>	<b>35.1</b>	<b>32.0</b>	<b>45.7</b>	<b>1.6</b>	<b>155.4</b>	<b>139.9</b>	<b>11.1</b>
<b>Net profit ex-EI</b>	<b>45.1</b>	<b>35.1</b>	<b>28.3</b>	<b>42.8</b>	<b>5.3</b>	<b>149.4</b>	<b>139.9</b>	<b>6.8</b>
Net DPS	1.0	0.0	NA	2.0	-50.0	3.0	2.0	50.0
			<i>+/- ppt</i>		<i>+/- ppt</i>			<i>+/- ppt</i>
EBIT margin (%)	16.2	10.9	5.3	18.3	-2.1	16.3	10.8	5.5
Tax rate (%)	-21.8	-1.6	-20.2	-28.8	7.0	-23.3	-15.7	-7.6

Source: Company

Fig 2: Eco World Development Group: RNAV estimate

Projects		Stake (%)	NPV (MYRm) @ 20-30% discount rate
<b>Klang Valley</b>			
1	Eco Sanctuary, Kota Kemuning	100%	413.5
2	Eco Sky, Jalan Ipoh	100%	2.2
3	Eco Majestic	100%	448.4
4	Eco Forest	100%	119.7
5	BBCC	40%	65.9
6	Eco Ardence	50%	175.6
7	Eco Grandeur	60%	186.1
8	Eco Business Park V	60%	77.6
<b>Iskandar Malaysia</b>			
9	Eco Tropics, Kota Masai	100%	120.6
10	Eco Business Park III, Kota Masai	100%	68.6
11	Eco Botanic, Nusajaya	100%	116.9
12	Eco Spring, Tebrau	100%	321.4
13	Eco business Park 1, Tebrau	100%	160.6
14	Eco Business Park II, Senai	100%	115.5
15	Eco Botanic extension	100%	61.4
<b>Penang</b>			
16	Eco Terraces, Paya Terubong	100%	4.3
17	Eco Meadows, Seberang Prai	100%	18.7
18	Eco Macalister, George Town	100%	9.5
19	Eco Horizon & Eco Sun	60%	120.2
<b>Total:</b>			<b>2,606.1</b>
27% stake in EWI			(576.7)
Shareholders' funds as at end-Oct 2021 (MYRm)			4,765.3
Warrant proceeds (MYRm) (1 warrant-for-1 share; expiring in 2022)			683.1
<b>Total RNAV (a):</b>			<b>7,477.7</b>
Number of shares (m)			2,944.4
Number of outstanding warrants (m)			588.9
<b>FD number of shares (m) (b)</b>			<b>3,533.2</b>
<b>FD RNAV/Sh</b>			<b>2.12</b>

Source: Company, Maybank IBG Research

FYE 31 Oct	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	9.4	10.1	8.9	7.0	6.5
Core P/E (x)	4.2	13.0	8.9	7.0	6.5
P/BV (x)	0.2	0.6	0.4	0.4	0.4
P/NTA (x)	0.2	0.6	0.4	0.4	0.4
Net dividend yield (%)	5.3	3.9	6.1	6.1	6.1
FCF yield (%)	25.9	25.4	23.3	14.9	12.1
EV/EBITDA (x)	21.9	19.2	9.6	8.2	8.0
EV/EBIT (x)	21.9	19.2	9.9	8.4	8.2

**INCOME STATEMENT (MYR m)**

Revenue	1,996.7	2,042.8	3,020.1	3,419.8	3,685.5
EBITDA	181.6	266.0	385.4	432.8	428.1
Depreciation	0.0	0.0	(9.7)	(10.3)	(10.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	181.6	266.0	375.7	422.5	417.3
Net interest income / (exp)	(138.7)	(112.0)	(99.5)	(92.8)	(89.4)
Associates & JV	153.5	142.7	12.7	33.9	68.1
Exceptionals	0.0	(57.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	196.4	239.3	288.8	363.6	396.1
Income tax	(36.3)	(56.6)	(69.3)	(87.3)	(95.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	160.2	182.7	219.5	276.3	301.0
Core net profit	265.0	231.1	219.5	276.3	301.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	456.4	784.7	1,120.3	1,291.1	1,408.2
Accounts receivable	849.6	631.7	934.0	1,057.6	1,139.7
Inventory	710.2	609.0	900.3	1,019.5	1,098.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	185.0	166.5	342.3	359.3	374.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2,234.5	2,374.2	2,374.2	2,374.2	2,374.2
Other assets	5,890.8	5,183.2	5,109.5	5,239.5	5,396.1
<b>Total assets</b>	<b>10,326.5</b>	<b>9,749.3</b>	<b>10,780.5</b>	<b>11,341.1</b>	<b>11,791.6</b>
ST interest bearing debt	2,050.4	1,566.8	1,566.8	1,566.8	1,566.8
Accounts payable	1,041.1	975.0	1,441.5	1,632.3	1,759.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,266.0	1,313.2	1,313.2	1,313.2	1,313.2
Other liabilities	1,324.0	1,129.0	1,628.0	1,840.0	1,980.0
<b>Total Liabilities</b>	<b>5,681.4</b>	<b>4,984.0</b>	<b>5,950.0</b>	<b>6,352.1</b>	<b>6,619.4</b>
Shareholders Equity	4,645.2	4,765.3	4,830.4	4,989.0	5,172.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>4,645.2</b>	<b>4,765.3</b>	<b>4,830.4</b>	<b>4,989.0</b>	<b>5,172.2</b>
<b>Total liabilities and equity</b>	<b>10,326.5</b>	<b>9,749.3</b>	<b>10,780.5</b>	<b>11,341.1</b>	<b>11,791.6</b>

**CASH FLOW (MYR m)**

Pretax profit	196.4	239.3	288.8	363.6	396.1
Depreciation & amortisation	0.0	0.0	9.7	10.3	10.8
Adj net interest (income)/exp	(154.1)	(136.9)	(99.5)	(92.8)	(89.4)
Change in working capital	476.0	942.2	351.3	143.7	95.5
Cash taxes paid	(35.7)	(56.1)	(69.3)	(87.3)	(95.1)
Other operating cash flow	35.9	(17.7)	0.0	0.0	0.0
Cash flow from operations	518.5	970.9	468.4	303.6	249.8
Capex	(113.8)	(101.4)	(15.0)	(15.0)	(15.0)
Free cash flow	289.9	761.9	453.4	288.6	234.8
Dividends paid	0.0	(117.8)	(117.8)	(117.8)	(117.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(463.0)	(436.4)	0.0	0.0	0.0
Other invest/financing cash flow	(58.3)	(59.9)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(116.7)</b>	<b>255.4</b>	<b>335.6</b>	<b>170.8</b>	<b>117.0</b>

FYE 31 Oct	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(18.9)	2.3	47.8	13.2	7.8
EBITDA growth	(19.6)	46.5	44.9	12.3	(1.1)
EBIT growth	(19.6)	46.5	41.2	12.5	(1.2)
Pretax growth	(26.2)	21.8	20.7	25.9	8.9
Reported net profit growth	(21.3)	14.1	20.1	25.9	8.9
Core net profit growth	30.3	(12.8)	(5.0)	25.9	8.9
<b>Profitability ratios (%)</b>					
EBITDA margin	9.1	13.0	12.8	12.7	11.6
EBIT margin	9.1	13.0	12.4	12.4	11.3
Pretax profit margin	9.8	11.7	9.6	10.6	10.7
Payout ratio	36.8	64.4	53.7	42.6	39.1
<b>DuPont analysis</b>					
Net profit margin (%)	8.0	8.9	7.3	8.1	8.2
Revenue/Assets (x)	0.2	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.2	2.0	2.2	2.3	2.3
ROAE (%)	3.5	3.9	4.6	5.6	5.9
ROAA (%)	2.5	2.3	2.1	2.5	2.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	2.0	1.8	1.8	1.8
Net gearing (%) (incl perps)	61.6	44.0	36.4	31.8	28.5
Net gearing (%) (excl. perps)	61.6	44.0	36.4	31.8	28.5
Net interest cover (x)	1.3	2.4	3.8	4.6	4.7
Debt/EBITDA (x)	18.3	10.8	7.5	6.7	6.7
Capex/revenue (%)	5.7	5.0	0.5	0.4	0.4
Net debt/ (net cash)	2,860.0	2,095.3	1,759.7	1,588.9	1,471.9

Source: Company; Maybank IBG Research

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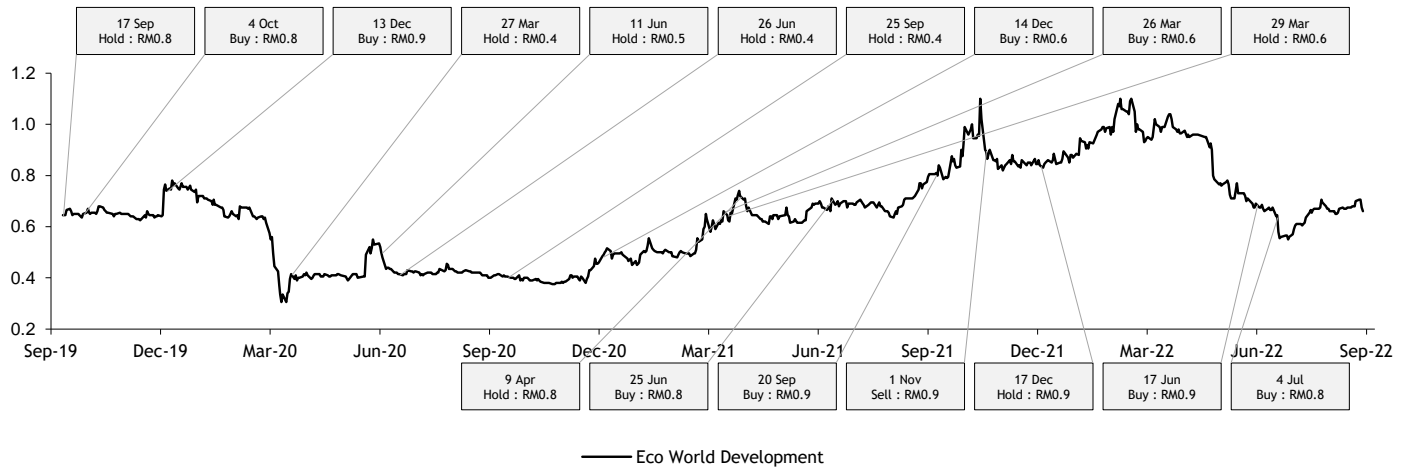
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## Historical recommendations and target price: Eco World Development (ECW MK)



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